

GAO

Briefing Report to Congressional  
Requesters

September 1992

1993 ARMY BUDGET

Potential Reductions to  
the Operation and  
Maintenance Programs



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United States  
 General Accounting Office  
 Washington, D.C. 20548

National Security and  
 International Affairs Division

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September 29, 1992

The Honorable John P. Murtha  
 Chairman, Subcommittee on Defense  
 Committee on Appropriations  
 House of Representatives

The Honorable Earl Hutto  
 Chairman, Subcommittee on Readiness  
 Committee on Armed Services  
 House of Representatives

As you requested, we reviewed certain operation and maintenance (O&M) accounts included in the Army's fiscal year 1993 O&M budget request. Our objective was to determine whether the programs should be funded in the amounts requested. We reviewed selected accounts for U.S. Army, Europe (USAREUR), U.S. Army Forces Command (FORSCOM), and U.S. Army Training and Doctrine Command (TRADOC). The accounts included funding for real property maintenance, ground operating tempo, flying hours, operation of equipment storage sites, and individual training. We also reviewed inventory management and civilian personnel matters involving commands other than those listed above. In June 1992, we provided your staff with the preliminary results of our work. This report updates that information.

As shown in table 1, we identified potential reductions of about \$523.1 million.

**Table 1: Potential Budget Reductions to the Army's Fiscal Year 1993 O&M Budget by Organization**

Dollars in millions	
Organization	Potential reduction
FORSCOM	\$165.6
USAREUR	253.5
TRADOC	104.0
<b>Total</b>	<b>\$523.1</b>

In addition, our analysis showed that the Army had \$570 million of unneeded inventory on order at the wholesale level. Because these inventories are procured with revolving funds and not O&M funds, we are not including the \$570 million as a potential budget reduction. Nevertheless, the magnitude of the unneeded inventories is an indication

that the amount of funds made available to procure spare and repair parts is too high.

The reasons for the potential reductions are as follows:

- The \$880 million requested for civilian personnel at FORSCOM exceeds the Command's requirements of \$812 million by \$68 million.
- The \$242 million requested for real property maintenance at FORSCOM includes \$44 million for projects that have not yet been identified.
- The \$169 million requested for USAREUR's flying hour program exceeds the Command's requirements of \$135 million by \$34 million.
- The \$797 million requested for ground operating tempo for FORSCOM exceeds the Command's requirements of \$774 million by \$23 million.
- USAREUR and FORSCOM units have \$129 million of excess inventory. This excess inventory reduces the amount of O&M funds that the Commands need to buy spare and repair parts.
- The budget request includes \$121 million for storing Prepositioned Materiel Configured to Unit Sets, ammunition, and reserve stocks in Europe. These costs may be funded out of the North Atlantic Treaty Organization infrastructure program.
- The \$875 million requested for individual training for TRADOC may be reduced by \$104 million due to a reduction in the training work load and a reduction in the amount of funds that the Department of the Army plans to allocate to the Command.

A more detailed discussion of the potential reductions is in appendix I. In appendix II, we discuss concerns about the adjustments made to the O&M budget accounts after the request was submitted to the Congress. We discussed information in this report with program officials during the course of our review and have included their comments where appropriate. Our objective, scope, and methodology are described in appendix III. We are sending copies of this report to the Secretaries of Defense and the Army, the Director of the Office of Management and Budget, the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations and on Armed Services, and other interested congressional committees. Copies will be made available to others upon request.

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This report was prepared under the direction of Richard Davis, Director, Army Issues, who may be reached on (202) 275-4141 if you or your staff have any questions. Other major contributors to this report are listed in appendix IV.



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**Abbreviations**

<b>FORSCOM</b>	<b>U.S. Army Forces Command</b>
<b>NATO</b>	<b>North Atlantic Treaty Organization</b>
<b>O&amp;M</b>	<b>operation and maintenance</b>
<b>POMCUS</b>	<b>Prepositioned Materiel Configured to Unit Sets</b>
<b>TRADOC</b>	<b>U.S. Army Training and Doctrine Command</b>
<b>USAREUR</b>	<b>U.S. Army, Europe</b>

# Potential Reductions to the Army's Fiscal Year 1993 Operation and Maintenance Programs

We identified about \$523.1 million of potential reductions to the Army's operation and maintenance (O&M) budget request for fiscal year 1993. Table I.1 shows the potential reductions by account and organization.

**Table I.1: Potential Reductions to the Army's O&M Budget for Fiscal Year 1993 by Account and Organization**

Budget account	Potential reduction			Total
	FORSCOM	TRADOC	USAREUR	
Civilian personnel	\$68.0	0	0	\$68.0
Real property maintenance	44.0	0	0	44.0
Flying hour program	0	0	\$34.0	34.0
Ground operating tempo	23.0	0	0	23.0
Inventory management	30.6	0	98.5	129.1
Burden sharing	0	0	121.0	121.0
Individual training	0	\$104.0	0	104.0
<b>Total</b>	<b>\$165.6</b>	<b>\$104.0</b>	<b>\$253.5</b>	<b>\$523.1</b>

In addition to the potential reductions in the O&M accounts, we identified about \$570 million of on-order inventory at the Army's wholesale-level inventory control points that is not needed to meet current operating and war reserve requirements. These items are procured with revolving funds and not O&M funds. Nevertheless, the amount of unneeded inventories is an indication that the amount of funds made available to buy the inventory items is too high.

We have previously testified that the services' budgets for spare parts and other secondary items could be reduced \$5 billion in fiscal year 1993.<sup>1</sup> The potential reductions in inventory cited in this report are similar to the types of reductions previously recommended in our February 1992 testimony.

## Civilian Personnel

For fiscal year 1993, the Army requested \$6.2 billion, or about 37 percent of its total O&M budget, for the payment of full-time, part-time, and intermittent U.S. civilian and direct-hire foreign national employees. Subsequent to the budget submission, the Army reallocated \$1.2 billion from the civilian personnel account to other O&M accounts.

<sup>1</sup>Defense Inventory: DOD's Efforts to Improve Management and Reduce Stocks Need to Continue (GAO/NSIAD-92-13, Feb. 28, 1992).



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**Results of Analysis**

Our review indicated that the Army's request for civilian personnel at U.S. Army Forces Command (FORSCOM) could be reduced by \$68 million because this amount was to fund personnel positions added by the Department of the Army but not requested by FORSCOM. For fiscal year 1993, the Army requested \$880 million for 28,805 civilian personnel at FORSCOM.

According to FORSCOM officials, 2,238 of the 28,805 positions were not requested by the Command, and they do not plan to hire people to fill these additional positions. One FORSCOM official told us that the Department of the Army had included these positions in the budget request under the assumption that FORSCOM had a need for them.

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**Real Property  
Maintenance Activities**

Real property maintenance funding is used to pay the day-to-day costs of operating, maintaining, and repairing military facilities. FORSCOM's portion of the Army's fiscal year 1993 budget request included \$242 million for real property maintenance.

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**Results of Analysis**

The amount requested for real property maintenance at FORSCOM could be reduced by \$44 million. The Army's request for \$242 million represents an increase of \$111 million over the fiscal year 1992 request after adjustments have been made to reflect the fact that minor construction and repair projects that were previously funded from real property maintenance are now funded from the military construction appropriation. FORSCOM personnel were able to justify \$67 million of this \$111 million increase. The remaining \$44 million, however, exceeds known requirements. According to one FORSCOM official, the \$44 million was included in a block funding package—a "catchall" account—that is used to fund unidentified requirements. Another FORSCOM official said that the excess funds in this account will be used to fund other accounts that are underfunded by the Department of the Army.

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**Flying Hour Program**

The costs of U.S. Army, Europe's (USAREUR) flying hour program include the cost of fuel and repair parts for its rotary- and fixed-wing aircraft. For fiscal year 1993, the Army is requesting \$169 million for USAREUR's flying hour program, which involves approximately 770 aircraft.

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**Results of Analysis**

Our review indicated that the Army's request for USAREUR's flying hour program could be reduced by \$34 million. As of May 1992, USAREUR's flying hour program was projected at 150,900 hours and a cost of about \$135 million.<sup>2</sup> This is \$34 million less than the \$169 million included in the Army's budget request for USAREUR.

A Department of the Army official agreed that the budget request for USAREUR was overstated by at least \$34 million. He said that during the next budget review cycle, USAREUR's flying hour program will be reevaluated and, in all probability, reduced.

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**Ground Operating  
Tempo**

Costs for ground operating tempo include the costs of the fuel and spare parts associated with operating tactical vehicles and other military equipment at a specified usage rate (miles or hours) in order to achieve or sustain a prescribed level of readiness. The Department of the Army calculates the amount necessary to operate its vehicles and equipment using its Training Resource Model, which multiplies the cost per unit of usage by the number of authorized pieces of equipment and then by the number of miles or hours. For example, if fuel and spare parts cost \$1.50 per mile and a command has 1,000 vehicles that it plans to operate 500 miles each during the year, the estimated ground operating tempo cost for the vehicles is \$750,000.

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**Results of Analysis**

Our review indicated that the Army's fiscal year 1993 request for ground operating tempo for FORSCOM could be reduced by \$23 million because the amount requested exceeds the Command's requirements.

The Army included \$797 million in its budget request for the support of FORSCOM's ground operating tempo program. However, documentation provided to us in support of the budget request shows that FORSCOM has an operating tempo requirement of only about \$774 million.

In commenting on a draft of this report, Army budget officials said that the amount included in the budget for each major command often does not agree with the amount computed by the Training Resource Model. However, the sum total for all the major commands will agree with the

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<sup>2</sup>USAREUR's requirements exclude \$10 million for inflation and foreign currency fluctuation, which is held by the Department of the Army in a special budget account and distributed to the Command later in the fiscal year.

modeled amount. The officials told us that this is the probable reason for the \$23 million difference between the amount requested and FORSCOM's requirements.

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## **Inventory Management**

Beginning April 1, 1992, the Army implemented a process whereby units use their own O&M funds to purchase all spare and repair parts. Before the change, units received certain reparable items at no cost from the wholesale supply system. The change is intended to promote savings by encouraging units to repair rather than purchase new items.

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## **Results of Analysis**

Our review indicated a \$129.1 million potential reduction in the Army's 1993 budget request because this amount represents excess inventory: \$98.5 million of this amount involves USAREUR, and \$30.6 million involves FORSCOM.

Our analysis showed that retail-level activities were not reporting their excess inventories to the wholesale level as required by Army policy. Instead, units are retaining the items for their own use, thereby avoiding the need to buy and pay for the items with their O&M funds.

When USAREUR units leave the theater, they transfer their inventories to an account known as Ownership Purpose Code 9, which documents excess inventory at the theater level. Excess inventory from units that returned from Southwest Asia was also transferred to this account. USAREUR then fills requests from other USAREUR units from this inventory on a "no cost" basis.

As of June 1992, there was \$98.5 million of inventory in this account. According to a USAREUR official, \$15.2 million of this inventory will be retained in the theater to fill requisitions from the remaining USAREUR units, and the other \$83.3 million of inventory will be returned to the Army's wholesale inventory level for credit.

Regardless of whether the inventory is retained in the theater or returned to the wholesale supply system for credit, the inventory in the Ownership Purpose Code 9 account represents a reduction to USAREUR's O&M requirements. In the absence of this inventory, USAREUR units would have to use their O&M funds to buy the items that they will now receive at no cost from the Ownership Purpose Code 9 account.

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Potential Reductions to the Army's Fiscal  
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The exact amount that represents an overstatement of USAREUR's spare and repair parts requirements depends on the final disposition of the Ownership Purpose Code 9 inventory. The amount of inventory that is retained in the account for issuance to other USAREUR units on a no cost basis represents a dollar-for-dollar duplication of USAREUR's O&M requirements. For inventory that is returned to the wholesale level for credit, the amount of duplication is the amount of credit that USAREUR receives.

USAREUR officials said that the O&M account had been reduced in fiscal year 1992 for the Ownership Purpose Code 9 inventory and that any further reductions would be unwarranted. However, budget documentation does not support the statement that the fiscal year 1992 O&M budget request was reduced because of this type of inventory.

FORSCOM units are also not reporting excess inventory to the wholesale-level supply system. Our analysis showed that prior to April 1992, five divisions had about \$30.6 million of excess inventory. As is the case in USAREUR, the unreported excess inventory at FORSCOM units represents a duplication of the Command's O&M requirements.

A Department of Defense Comptroller official said that the services' O&M budget requests for fiscal year 1993 had been decremented by Program Budget Decision 731 to take into account the unneeded materiel that was returned from the Gulf War. He said that the Army's portion of decrement was \$1.486 billion. On the basis of our analysis of the Program Budget Decision, we agree that the services' budget requests were decremented. However, the inventory in the Ownership Purpose Code 9 account is not all related to excess Gulf War inventory. The account was created primarily to handle the inventories turned in by units leaving Europe. Furthermore, we identified the excess inventory at the divisions in the United States after the units had "scrubbed" their authorized inventory lists to delete inventory buildups that had occurred during the Gulf War. Therefore, we believe that the amount of the potential reduction identified during our review remains valid.

Additionally, inventory control points at the wholesale level have about \$570 million of unneeded inventory on order, as shown in table I.2. These inventory items are procured with revolving funds, not O&M funds. Nevertheless, the large amount of unneeded inventory indicates that the

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amount of funds made available to procure spare and repair parts is too high. Table 1.2 shows the value of on-order inventory,<sup>3</sup> as of March 31, 1992, for each wholesale inventory control point.

**Table 1.2: Unneeded Wholesale-Level  
On-Order Inventory by Inventory Control  
Point** (as of March 31, 1992)

Dollars in thousands

<b>Inventory control point</b>	<b>On contract</b>	<b>Awaiting contract</b>	<b>Total</b>
Armament, Munitions, and Chemical Command	\$41,997	\$10,511	<b>\$52,508</b>
Aviation Systems Command	44,608	11,514	<b>56,122</b>
Communications-Electronics Command	124,976	22,128	<b>147,104</b>
Missile Command	126,654	37,444	<b>164,098</b>
Tank-Automotive Command	107,421	13,736	<b>121,157</b>
Troop Support Command	19,088	9,838	<b>28,926</b>
<b>Total</b>	<b>\$464,744</b>	<b>\$105,171</b>	<b>\$569,915</b>

**Increased Burden  
Sharing**

The Army's O&M budget request for fiscal year 1993 included \$20 million for storing ammunition and theater reserves and \$101 million for operating 240 Prepositioned Materiel Configured to Unit Sets (POMCUS) facilities in Europe.

**Results of Analysis**

Our review identified a potential reduction to the Army's 1993 O&M budget request of \$121 million in anticipation of increased North Atlantic Treaty Organization (NATO) burden sharing.

In prior years, the O&M costs associated with POMCUS, ammunition, and theater reserves was borne entirely by USAREUR. However, according to a Department of State official, negotiations are underway with NATO officials concerning the funding of these costs by NATO. The official said that it looks very promising that NATO will agree to provide infrastructure funding

<sup>3</sup>On-order inventory includes inventory that is under contract to be delivered and pending procurements awaiting contract award.

in fiscal year 1993 for the O&M costs associated with POMCUS, theater reserves, and ammunition storage.

According to USAREUR officials, the total O&M requirement for the operations in question is \$226 million, and the Command is underfunded by \$105 million—the difference between the \$226 million requirement and the \$121 million remaining in the budget. USAREUR officials said that any further reductions would be unwarranted because past efforts to obtain funding from NATO for these O&M activities have not been successful.

Our discussions with NATO officials and documentation we obtained from the Department of Defense, however, show that NATO has agreed in principle to fund these O&M costs and that funding could be expected as early as fiscal year 1993. In our opinion, the likelihood for increased burden sharing from NATO is more favorable than it has been in the past.

Army budget officials said that it may be optimistic to expect that in fiscal year 1993 NATO will pick up any of the O&M costs associated with the storage of prepositioned materiel, war reserves, and ammunition in Europe. They said, however, that if such funding is received in fiscal year 1993, a budget rescission for the amount of the burden sharing received should be prepared and approved.

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## Individual Training

Individual training functions involve recruit training, one-station training, officer acquisition training, special skills training, and training support. In its 1993 budget, the Army requested \$875 million for individual training functions performed by the U.S. Army Training and Doctrine Command (TRADOC).

The requested \$875 million represents only a \$5 million reduction from the fiscal year 1992 request for individual training, even though force levels are being substantially reduced, and military personnel are being encouraged to leave the services.

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## Results of Analysis

Our review indicated that the Army's 1993 O&M request for TRADOC's individual training could be reduced by \$104 million: \$25 million in excess requirements and \$79 in anticipated reduced work load.

In its budget guidance to TRADOC, the Army identified a training requirement of \$850 million—\$25 million less than what was requested.

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Additionally, TRADOC's fiscal year 1993 budget planning guidance to its installations advised them to plan for \$850 million—not the \$875 million that was requested from the Congress.

Our review also indicated that TRADOC's O&M requirements may be overstated by an additional \$79 million because of reduced training work load requirements. The Army, in its budget justification documents, used a work load requirement that was less than the requirement used to compute the \$875 million budget request. The budget request was based on a training work load of 67,456 students. However, for budget justification purposes, the Army showed a training work load of 61,398 students. The difference (6,058 students) represents a 9-percent reduction in the work load, which equates to about \$79 million.

Army officials could not explain the reasons for the different work load figures other than to say that the information had come from different data bases. They said that one reason for the difference could be an error in one of the data systems and that they are reviewing the systems to see whether there is a problem. The officials also said that a 9-percent reduction in the training work load does not necessarily translate to 9 percent of the costs. However, they were not able to be more specific about what the reduced costs would be.

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# Adjustments to the Amount of Funds Initially Requested for O&M

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During our review, we identified an issue that may warrant the special attention of the authorizing and appropriating committees. After the budget was submitted to the Congress in February 1992 but before the justification books were finalized, the Army adjusted the amounts requested for certain accounts. The major adjustments to the amounts requested were a \$1.2 billion reduction in the amount requested for civilian personnel and a \$1.5 billion increase in the amount requested for contracts.

According to a March 26, 1992, paper prepared by the Army, the civilian personnel request was overstated by \$1.2 billion because time pressures had precluded costing and detailed analysis of the budget before it was submitted to the Congress. The Army paper further stated that the \$6.2 billion request had not taken into account the transfer of a medical program to another organization. When the Army found its error, it attempted to amend its overall budget submission, but the Office of the Secretary of Defense would not allow it to do so.

However, as shown in table II.1, the Army adjusted the amounts requested for the various O&M accounts. These adjustments did not affect the total amount of O&M funds requested by the Army.



**Appendix II  
Adjustments to the Amount of Funds Initially  
Requested for O&M**

**Table II.1: Adjustments to the O&M  
Budget Request After the Budget Was  
Submitted**

Dollars in millions	
<b>Account description</b>	<b>Increase (decrease)</b>
Civilian personnel	(\$1,175.7)
Benefits for former personnel	6.0
Transportation of things	62.6
Rental payments to General Services Administration	5.0
Communications, utilities, and miscellaneous charges	216.1
Payments to foreign nationals	32.7
Contracts	1,574.9
Equipment	141.6
Travel and transportation of persons	1.0
Rental payments to others	(9.7)
Printing and reproduction	(18.2)
Purchases from industrial fund	(443.9)
Other services	(253.9)
Supplies and materials	(51.8)
Land and structures	(18.6)
Grants, subsidies, and contributions	(6.5)
Insurance claims and indemnities	(61.6)
<b>Total net changes to O&amp;M request</b>	<b>\$0</b>

# Objective, Scope, and Methodology

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This review is one of a series that examines defense budget issues. Our objective was to assess the adequacy of the justifications for certain O&M accounts included in the Army's fiscal year 1993 O&M budget request to determine whether the programs should be funded in the amounts requested.

We performed our review at three major Army commands for which large amounts of O&M funds had been requested in fiscal year 1993—FORSCOM, TRADOC, and USAREUR. At FORSCOM and USAREUR, our review focused primarily on general purpose forces O&M accounts: for the general purpose forces mission, real property maintenance activities, and base operations. Our review also included subaccounts within the major accounts. For example, we reviewed the subaccounts for civilian personnel and ground and air operating tempo. At TRADOC, our review focused on the individual training account, which includes recruit training, officer acquisition training, special skills training, and flight training. Additionally, at the Department of Army Headquarters, we reviewed selected general purpose mission subaccounts such as the civilian personnel and air and ground operating tempo subaccounts. We also reviewed inventory management issues related to USAREUR and FORSCOM units.

In performing our review, we interviewed budget, resource management, and program officials to obtain information for assessing the reasonableness of the budget justifications. To corroborate the information we obtained from these officials, we also reviewed pertinent program documents and budget support data provided by the Department of the Army, Washington, D.C., and the three major Army commands.

We performed our review from March to August 1992 in accordance with generally accepted government auditing standards.

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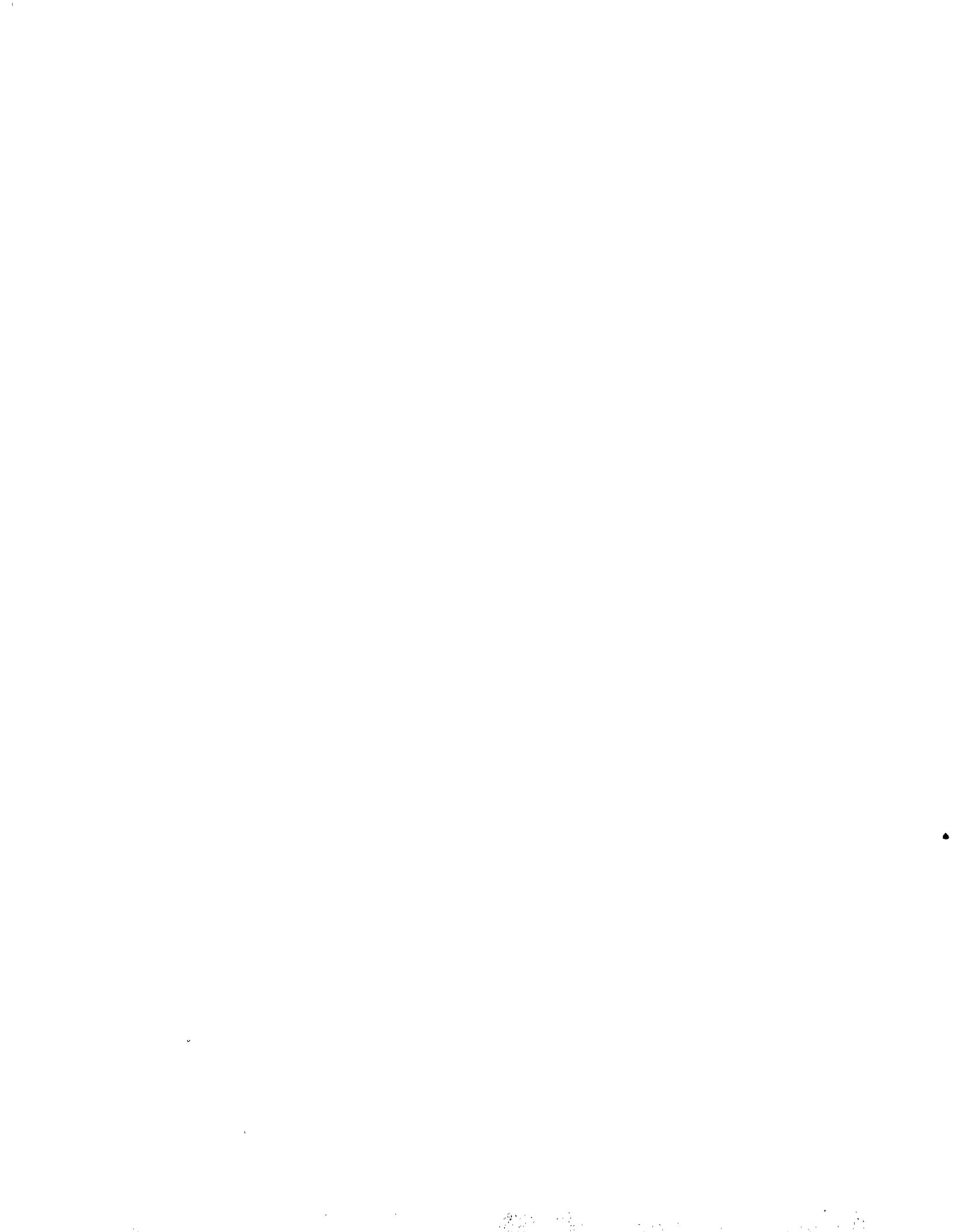
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